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DEPARTMENT FOR AF/S AND EEB/CBA - DENNIS WINSTEAD
COMMERCE FOR 4510/ITA/IEP/ANESA/OA

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SUBJECT: ZAMBIA DECEMBER 2008 ECONOMIC ROUNDUP

REF: LUSAKA 302

¶1. SUMMARY
-- Inflation Continues to Rise
-- GRZ Sells Subsidized Maize
-- Mining Operations Scale Back
-- Financial Markets Continue Decline
-- COMESA Customs Union Delayed

Inflation Continues to Rise
¶2. According to the Central Statistical Office (CSO), year-on-year inflation rate rose to 16.6 percent in December, 1.3 percent higher than in November. The increase is attributed primarily to food prices. Food accounts for 9.9 percent of the rise.
¶3. The Zambian Government (GRZ) reduced the fuel price at the pump following reductions in oil prices on the international market. For 90,000 tons of oil which arrived in November, GRZ paid USD 53 million compared to USD 81 million paid for a similar consignment in October--a 35 percent decrease. This reduction brought a slight reduction in transportation costs for both passengers and freight. The impact should be reflected in the Consumer Price Index for January 2009.
GRZ Sells Subsidized Maize to Reduce Cost of the Staple Food

¶4. The GRZ directed the Food Reserve Agency (FRA) to offload some of its strategic reserve maize stocks and to import 100,000 tons of maize to reduce and stabilize the rising mealie meal prices on the market. Agriculture Minister Brian Chituwo told parliament that millers and private traders have been issued with import permits for non-genetically modified organisms (GMO) maize from South Africa. (Note: The premium for non-GMO maize is at least 30 percent). The maize imported from the Southern African Development Community (SADC) and COMESA will be duty free, while a special duty mechanism will be worked out for maize imported from outside the region. This will make the landed price lower and the price of mealie meal more affordable to consumers. Opposition parties had threatened to organize protests over the rising cost of Zambians' staple food.

¶5. According to government, Zambia produced 1.2 million tons of maize during
the 2007/2008 compared to 1.3 million tons in 2006/2007 season. With an
increase in consumption rate of 60,000 tons per month, there has been an
overwhelming demand for maize and maize products. This has resulted in fears
about whether Zambia has enough maize stock to last until the next harvest
season.

¶6. The FRA is selling off 30,000 tons of maize to millers under special
contract, and all major millers in the country have thus reduced the mealie
meal price as directed by the FRA. The maize is currently being sold to
consumers for K55,000 (USD 11.22) per 50 kilogram bag from K63,000 (USD 12.86)
in April 2008, a 13 percent decrease.

Mining Companies Scale Back

¶7. The collapse of copper prices has led Canadian-based First Quantum
Minerals to shut down its copper processing plant and retrench 365 workers at
Bwana Mkubwa mine, while Kansanshi Mine retrenched over 70 workers. Lumwana
Mine offered to reduce its expatriate labor force to cut costs,

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which makes up
40 percent of total labor force. Luanshya Copper Mines closed down and was
put under care and maintenance, retrenching over 1,700 workers. With some
calling for GRZ to temporarily nationalize the mine to keep it running (and
preserve the jobs), Government has set up a committee to recommend to the way
forward on the mine closures.

¶8. The Zambian economy is largely dependent on copper and cobalt exports.
Copper prices, which had reached a record high price of USD 8,985 per ton in
first week of July 2008, closed at below USD 3,000 per ton on December 24,
¶2008. This 65 percent decrease has been attributed to low demand from major
consumers, whose economies have slowed down as a result of the credit crisis.
The high copper prices in the last two years spurred huge investments into
mining. For example a concentrator and an ultra modern smelter have been
installed at Konkola Copper Mines, Nchanga strategic Business Unit. Mining
and crushing activities commenced at Lumwana Copper Mine and Munali Nickel
Mine.

Financial Markets Continue Decline

¶10. Zambian financial markets have faced challenges since July 2008, when
late president Levy Mwanawasa fell ill, through his death in August and the
change of administration in November 2008. Uncertainties over Zambia's
economic policy induced volatility in the foreign exchange and securities
markets, especially among foreign portfolio investors in treasury

bills and equities on the Lusaka Stock Exchange.

¶11. Celtel (Zain) Zambia shares fell to K400 per share on December 1, 2008 from the listing price of K640 on June 11, 2008. The 38 percent drop is attributed to foreign investors seeking to cash out on uncertainty and to the weakening of the local currency.

¶12. The Zambian Kwacha depreciated over 60 percent from June 2008 to the end of the year, closing at K4900 = USD1. The sharp decline can be attributed primarily to falling copper prices and rising inflation. This development has seen a number of service providers quoting prices in USD, an illegal practice in Zambia. While a depreciated currency is general advantageous for a country's exports, the dip could trigger a steep rise in consumer prices in an import-dependent economy such as Zambia's.

COMESA Customs Union Delayed

¶13. The COMESA Customs Union, scheduled to commence in December 8, missed the deadline after heads of state in the region failed to meet for a third time in
¶2008. The trade ministers who met in Lusaka early December failed to pick a date and venue for the next Summit that failed to take place in Harare since May. The Summit, which is the apex decision making organ on the organization is supposed to meet once a year to endorse decisions made by technical teams and council of ministers. The date and venue of the next meeting will be communicated in the course of the year.

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